



J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

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TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **REVIEW OF JAY CEE DEE CHILDREN'S HOME, INCORPORATED – A
GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on Jay Cee Dee Children's Home, Incorporated (JCD or Agency) fiscal operations. JCD is licensed to operate two group homes with a resident capacity of 12 children, six in each home. For calendar year 2003, JCD received a total of \$564,267 in foster care funds from the Department of Children and Family Services (DCFS). JCD is located in the Fifth District.

Scope

The purpose of this review was to determine whether JCD has complied with its County contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with federal, State, and County fiscal guidelines governing the disbursement of group home foster care funds. Our review covered the period January 1, 2003 through December 31, 2003.

Summary of Findings

We identified \$16,194 in expenditures that were ineligible because they were not program related and \$3,336 in expenditures that did not have adequate documentation (e.g. original receipts, etc.) to support the expenditures. In addition, the Agency needs

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to prepare a general ledger for each reporting period and strengthen its internal controls over check disbursements, personnel/payroll records, and bank reconciliations. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the ineligible and unsupported/inadequately supported expenditures and, if appropriate, collect all disallowed amounts. In addition, DCFS must ensure that JCD's management takes the appropriate corrective actions to address the recommendations in this report. DCFS should also monitor to ensure that the corrective actions taken results in permanent changes.

Review of Report

We discussed our report with JCD's management on May 17, 2004. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS indicates that it will provide your Board with a written response within 60 days detailing the resolution of all findings contained in the report.

We thank JCD's management and staff for their cooperation during our review.

If you have any questions, please contact me, or your staff may contact DeWitt Roberts at (626) 293-1101.

JTM:DR:RL

Attachment

c: Chief Administrative Office

David E. Janssen, Chief Administrative Officer

Claudine Crank, Principal Analyst, Budget & Operations Management Branch

Department of Children and Family Services

David Sanders, Ph.D., Director

Angela Carter, Deputy Director, Bureau of Administration

Joan Smith, Deputy Director, Bureau of Finance

Edward Sosa, Interim Division Chief, Quality Assurance Division

Jay Cee Dee Children's Home, Incorporated

Mattie Drawn, Executive Director

Board of Directors

California Department of Social Services

Cora Dixon, Chief, Foster Care Audit Bureau

Sheilah Dupuy, Chief, Foster Care Rates Bureau

Violet Varona-Lukens, Executive Officer

Public Information Office

Audit Committee

Commission for Children and Families

JAY CEE DEE CHILDREN'S HOME, INCORPORATED
REVIEW OF GROUP HOME FOSTER CARE CONTRACT

BACKGROUND

The Department of Children and Family Services (DCFS) contracts with Jay Cee Dee Children's Home, Incorporated (JCD or Agency) to provide the basic needs and services for foster care children placed in the Agency's care. The Agency is licensed to operate two group homes with a resident capacity of 12, six children for each home. JCD is located in the Fifth District.

Under the provisions of the contract, the County pays JCD a monthly rate for each child, based on the Group Home Annual Rate determined by the California Department of Social Services (CDSS). During our review period, January 1, 2003 through December 31, 2003, JCD received a monthly rate of \$4,102 per child placed in the group home. During this period, the Agency received a total of \$564,267 in foster care funds from DCFS.

APPLICABLE REGULATIONS AND GUIDELINES

JCD is required to operate its group homes in accordance with certain federal, State, and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our review:

- Group Home Contract, including Exhibit I, Auditor-Controller Contract Accounting and Administrative Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

REVIEW OF EXPENDITURES

Our review disclosed a total of \$19,530 in ineligible expenditures or expenditures that were unsupported/Inadequately supported. Details of these expenditures are listed below.

Ineligible Expenditures

Sections 16 and 23 of the Circular identify fines, penalties, and interest payments as unallowable costs. The Agency used \$14,840 in group home funds to pay penalties and interest to the Internal Revenue Service for their failure to file Non-Profit Organization Returns (Form 990) on a timely basis and for failure to promptly pay payroll taxes (Form 941). We also noted that the Agency paid \$1,354 in bank overdraft fees and return check charges. These charges are also ineligible under the Circular. We question the amount of \$16,194 as ineligible expenditures.

As of April 2004, the Agency owed the IRS \$27,596 in delinquent payroll taxes. This amount includes \$3,485 in fines and penalties and \$1,814 in accrued interest. We recommend that the Agency not use foster care funds for the payment of interest and penalties charged by the IRS.

Unsupported/Inadequately Supported Expenditures

Per A-C Handbook, all revenues and expenditures shall be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed on audit. Our review of the Agency's check register disclosed 41 checks, totaling \$3,336, which did not have adequate supporting documentation. These checks were issued to the facility manager or were made payable to cash. Therefore, we are questioning \$3,336 as inadequately supported expenditures.

Recommendation

1. **DCFS management resolve the \$19,530 in ineligible, unsupported or inadequately supported expenditures and, if appropriate, collect any disallowed amounts.**

In order to appropriately account for group home funds, and administer the program in compliance with the terms of their agreement with the County, JCD should implement the following recommendations:

JCD management:

2. **Ensure that foster care funds are used only for allowable expenditures to carry out the purpose and activities of the Agency.**
3. **Ensure that no foster care funds are used in the payment of interest and penalties charged by the IRS.**
4. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several internal control weaknesses during the review. DCFS should ensure that JCD's management takes appropriate corrective actions to address each of the internal control recommendations in this report. DCFS should also monitor this contractor to ensure the corrective actions result in permanent changes.

General Ledger

According to A-C Handbook, Section A.2, a general ledger shall be maintained with accounts for all assets, liabilities, fund balances, expenditures and revenues. The A-C Handbook also states that postings to the general ledger and journals should be made on a monthly basis. For our review period, the Agency did not maintain a general ledger. Consequently, we conducted our review using alternative records such as the Agency's check register, cancelled checks, petty cash logs, receipts and invoices, etc. We recommend that the Agency complete its general ledger for 2003 and in future years.

Recommendation

5. JCD management maintain a general ledger as required by the A-C Handbook.

Checks Payable to "Cash"

A-C Handbook, Section B.2.1, states that checks shall not be payable to cash or signed in advance. We noted 13 checks, totaling \$2,246, made payable to cash. These checks were used to reimburse employees for petty cash expenditures consisting of food, outings and child allowances. Instead of issuing checks payable to cash, the Agency should write reimbursement checks to the fund custodian. Receipts and vouchers supporting the fund replenishment should be bound together, filed chronologically and cross referenced to the reimbursement check.

Recommendation

6. JCD management refrain from issuing checks payable to cash. For petty cash purposes, checks should be payable to the petty cash custodian.

Payroll/Personnel Controls

JCD's payroll and personnel procedures are not in compliance with CDSS MPP, Section 11-402, which requires supporting documentation to be maintained for all

program expenditures including employee salary rates. In addition, Circular, Section 7m, states that employee salaries and wages must be supported by records indicating the total number of hours worked each day and that the payroll records must be signed by the employee and approved by a supervisor.

We sampled the personnel files and payroll records of 12 employees and noted the following:

- None of the employee personnel files contained the employee's current salary rate.
- Two (17%) employee time sheets were not signed by the employee.
- Three (25%) employee time sheets were not signed by a supervisor.

Recommendations

JCD management ensure:

- 7. Employee personnel files contain current authorized salary amounts or hourly rates of pay approved by management.**
- 8. All time sheets are signed by the employees and approved in writing by management.**

Bank Reconciliations

A-C Handbook, Section B.1.4, states that bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. The Agency did not prepare any bank reconciliations during our review period of January 1, 2003 through December 31, 2003. The Agency should ensure that bank reconciliations are prepared within 30 days of the bank statement date and that they are reviewed by management.

Recommendation

- 9. JCD management prepare bank reconciliations within 30 days of the bank statement date and ensure the reconciliations are reviewed by management.**